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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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To Intervene Or Not To Intervene . . .

Two weeks ago, soon after the conclusion of the Versailles summit conference, the United States, much to the surprise of observers of the international currency scene, announced that it had implemented one of the requests made of it at the conference by intervening in the foreign exchange markets. The surprising thing was not only the intervention itself, but the fact that the U.S. announced it immediately thereafter. Although U.S. intervention in the foreign exchange markets had been more or less routine since the inception of floating rates in 1973, the Treasury Department introduced in mid-March 1981 a new policy of nonintervention except in cases of "serious disorder." The question thus arises as to what caused this intervention to occur in mid-June.

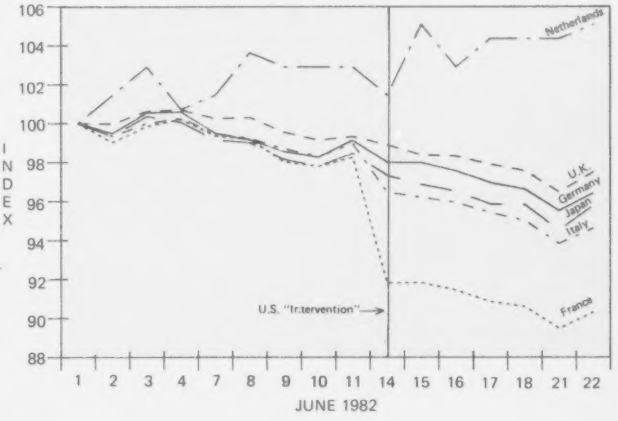
What constitutes a disorderly market may be defined subjectively. One could say that there was some disorder after the devaluation of the French franc and Italian lira and the revaluations of the German mark and Dutch guilder which took place the weekend before the Monday (June 14) intervention by the U.S. But aside from the sharp fall in the franc and the continuing appreciation of the guilder (see chart), the foreign exchange markets did not appear to have been all that disorderly. Were the markets really disorderly, or should we look elsewhere for the reason for U.S. intervention?

. . . That Is The Question

It is instructive to look beyond the immediate conditions of the foreign exchange markets and examine the statements made at the conclusion of the Versailles summit conference. The U.S. had been asked to intervene when necessary, ostensibly to dampen volatile currency fluctuations, but more likely to help push down the value of the dollar. The strong dollar has added to global inflation and recession—not to mention problems with world trade.

The U.S. came to the conference with the intent of pursuing its previous policy of nonintervention, but soon recognized that if it had any chance at all of gaining its objectives—particularly restraining credit to Eastern Europe—it would have to offer something in return. The promise to intervene appeared to be the best method. It had, at this juncture, several advantages. For one thing, the U.S. commitment to intervene can be quickly and easily reversed if U.S. objectives are not met whereas the commitments the U.S. is asking for from its friends tend to be longer lasting. Further, intervention can be easily concealed and is difficult to isolate. Even experienced foreign exchange traders frequently have difficulty determining if intervention has taken place, by whom and to what extent.

DAILY CURRENCY MOVEMENTS AGAINST THE U.S. DOLLAR:
FIRST THREE WEEKS OF JUNE
(JUNE 1, 1982=100)



Intervention is necessarily a secret policy. Government intervention policy and timing, if known to participants in the foreign exchange markets, can be used by speculators as a practically guaranteed way of making a profit. Further, the most difficult problem in implementing an intervention policy is to recognize when intervention is called for and the amount of resources to be committed without "overcorrecting." Hence, governments prefer to retain their freedom of action. Also, central banks operate in the foreign exchange markets daily on a confidential basis for a number of clients—themselves, other central banks and private corporations undertaking large transactions—and for a

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wide range of reasons of which intervention in order to smooth out disorderly markets is only one. For these reasons, the Federal Reserve and the Treasury Department have long had a policy of not publishing U.S. foreign exchange operations until after the event—usually in the following quarter.

Curiously, this time that policy was not observed. Treasury Secretary Regan announced the intervention immediately after it took place, giving strong support to the view that it was a demonstration of international goodwill setting the stage for a possible quid pro quo. This would allow each country participating in the Versailles conference to come away with some realization of its goals.

A Skirmish Lost . . .

For the first time since last September, the monthly rate of inflation has climbed back into double digits. Fueled by sharply higher gasoline, food and housing costs, the consumer price index rose at a seasonally adjusted annual rate of 12 per cent in May, month-over-month. This followed a 2.1 per cent annual rate of rise posted during the previous five months.

However, despite this steep uptick in the CPI, the battle against inflation is not lost. The long-term indicator of inflation—the core rate—continues its descent, food prices show signs of stabilization and gasoline prices have begun to decline once again. What is more, the index for apparel and upkeep

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/16/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	140.420	+ 1.711	+11.058
Loans to Depository Inst.	.931	– .375	– .980
Float	2.042	– .455	– 1.631
Total Reserve Bank Credit	152.051	+ 1.021	+ 7.337
Treasury Deposits with Federal Reserve Banks	2.950	– .459	– .246
Currency Outside Banks	131.471	+ .517	+ 8.748
Member Bank Reserves:			
Required	39.344	+ .939	– .884
Excess (Deficiency)	.193	+ .017	– .127
Total Reserves Held	39.537	+ .956	– 1.011
Net Borrowed Reserves	.517	– .396	– .795
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.697	+ 2.162	– 1.156

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	452.5	+ 4.5‡	+ 5.7‡
M2 (May '82)	1,896.9	+ 10.6	+ 9.5
M3 (May '82)	2,277.9	+ 11.4	+ 10.3
L (January '82)	2,659.4	+ 9.1	+ 10.9

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 6/25/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.90%	12.18%	12.90%
* Federal Agencies	13.40	14.10	14.30
* Project Notes—Taxfree (46% Taxable Equivalent)	13.70	14.72	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.40	15.65	15.80

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	14.00%	Jul.	14.50%
15- 29 days	14.38	Aug.	14.55
30- 59 days	14.38	Sep.	14.70
60- 89 days	14.38	Oct.	14.75
90-179 days	14.50	Nov.	14.75
180-239 days	13.50	Dec.	14.65
240-270 days	12.00		

‡Industrial Paper—Prime			
30- 89 days	14.38%	†Federal Funds Effective Rate	14.90%
90-120 days	14.50		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,998	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,485	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	– 3.7	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	May '82n	12.0%	2.4%	9.6%
Change in Producer Prices*	May '82	0.0%	1.2%	2.4%
Civilian Employment (Thousands of Persons)†	May '82	100,117	99,340	101,045
Unemployment as % of Civilian Labor Force†	May '82	9.5%	9.4%	7.5%
Personal Income*	May '82	$ 2,548	$ 2,532	$ 2,367
Leading Indicators Composite Index (1967=100)†	Apr '82	125.2	124.2	137.3
Industrial Production Index (1967=100) †	May '82	140.3	140.6	152.7
Net Change in Consumer Installment Credit†	Apr '82	$ 1.18	$ 0.99	$ 2.72
U.S. Merchandise Trade Balance †	May '82n	–$ 3.29	–$ 0.32	–$ 3.35
Plant and Equipment Expenditures*	3rd Q'82	$328.04(a)	$336.77(a)	$328.25
Private Housing Starts (Thousands of Units)*	May '82	1,086	888	1,172
New Construction Expenditures*	Apr '82	$ 232.8	$ 234.2	$ 246.5
Total Business Inventories†	Apr '82	$ 508.5	$ 507.6	$ 487.1
Total Business Sales†	Apr '82	$ 339.9	$ 343.1	$ 350.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

declined, while increases in the other major categories of consumer spending were either equal to or smaller than those in April.

One of the most important indicators of an abatement in inflation is the trend in the underlying or "core" rate of inflation which takes into account capital and labor costs. This long-term indicator of price trends shows that the wage-price spiral is winding down. It retreated to an 8.2 per cent rate of increase during the first quarter of 1982 from a 9.3 per cent rate of rise just a year ago, and it probably slowed further in the second quarter. This significant improvement has been aided by the business tax cut implemented in October, 1981 and the recent moderation in labor costs. Most wage settlements in 1982 provided no more than cost-of-living adjustments, and many existing contracts were renegotiated as employees in many ailing industries gave substantial wage concessions. What is more, further improvement in the core rate of inflation is expected with an increase in labor productivity, which should occur once the economy begins to grow.

. . . But The Battle Is Not Over

The major culprit behind May's jump was the 0.9 per cent rise in the cost of gasoline, which accounted for more than three-fifths of the overall rise in the CPI. Cutbacks in production by the OPEC countries,

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/9/82)	136,611	+ 692	+19,139
New York City (6/9/82)	33,495	+ 136	+ 5,504
Commercial Paper (6/9/82)	177,024	+ 562	+34,461

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/9/82)	209,577	+ 519	+33,070
New York City (6/9/82)	59,212	+ 285	+ 7,516

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/9/82)	485,524	– 559	+49,048
New York City (6/9/82)	112,696	– 1,425	– 9,283

Financial Markets

	Friday 6/25/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.60%	+ .34	– 1.21
180-Day Bills†	14.28	+ .08	– .78
Longest Bills†	14.46	– .02	– .21
Recent Issues:			
14³/₈s 6/30/84 (When Issued)	14.90	– .02	
14s 3/31/86	14.78	+ .05	
13³/₄s 5/15/92	14.62	– .07	
14s 11/15/11	14.14	– .04	
Municipals:			
Bond Buyer–20 Bond Index* (6/24/82)	12.62%	– .01	+ 1.88
Blue List Total ($ Million)	$ 971	– $ 38	– $ 919
30-Day Visible Supply ($ Million)	$2,276	+ $108	+ $1,151
Total	$3,247	+ $ 70	+ $232
Corporates:			
Moody's Aa Composite (6/24/82)	15.59%	+ .30	+ 1.25
30-Day Visible Supply ($ Million) ‡	$1,365	– $ 10	NA
Stocks:			
Dow-Jones Averages:			
Industrials	803.08	+ 14.46	– 189.79
Transportation	315.35	+ 10.34	– 104.02
Utilities	106.57	– .13	– 2.19
65 Stocks	312.73	+ 5.95	– 70.50
Standard and Poor's 500 Stocks	109.14	+ 1.86	– 23.56
N.Y.S.E. Composite Index	62.72	+ .98	– 14.25
N.Y.S.E. Avg. Daily Vol. for Week (000's)	52,736	+ 3,808	+ 8,004

* 46% Taxable equivalent 23.37%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/25/82	Week Ago
Overnight	14.88%	14.25%
1 month	15.63	15.38
3 month	16.38	16.13
6 month	16.63	16.25
1 year	16.44	16.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.90%	15.15%
Long Term (7 to 15 yrs.)	15.00	15.00

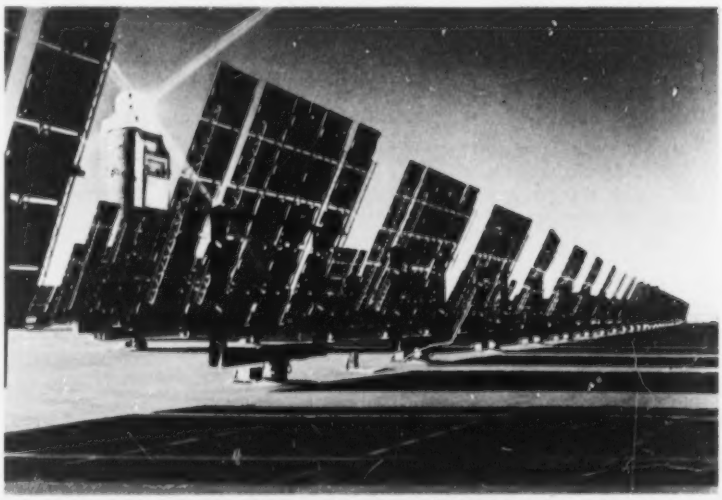
FOREIGN EXCHANGE SPOT RATES

New York Opening (6/25/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02106	47.48
Canada	.7777	1.2858
Denmark	.1161	8.6100
France	.1445	6.9200
Germany	.4014	2.4910
Italy	.0007140	1400.60
Japan	.003893	256.85
Mexico	.02086	47.93
Netherlands	.3634	2.7515
Switzerland	.4709	2.1235
U.K.	1.7215	.5809

drawdowns of world inventories and the war in the Middle East had pushed up the spot price of oil, which reflects market supply and demand conditions, by almost $5 per barrel during the two months ending in mid-May. However, since then the price of oil has fallen due to continued sluggish demand.

As a result, many distributors and resellers of petroleum products in the United States decided to replenish their inventories to take advantage of low prices. For example, distributors of distillate fuels depleted their stocks at the end of the last heating season to almost 25 per cent of storage capacity, which is estimated at 40 to 50 million barrels. Now storage supplies have been raised to more normal levels. Similarly, gasoline suppliers have replenished their stocks. However, this increased demand is not an indicator of any true increase in consumption, but rather a one-time adjustment of inventories.

Food prices at grocery stores also rose sharply last month, advancing one per cent compared with April. Meat prices posted the sharpest increases as a result of sizable reductions in red meat supplies in general and pork supplies in particular. The number of hogs and pigs on U.S. farms is now 13 per cent below a year ago—the lowest June 1 inventory since 1975. However, supplies of pork are not expected to decline much further. What is more, the spot price index of foodstuffs has been declining since the end of May, as a result of lower vegetable, grain and soybean prices, and weak export markets. ■



Solar testing facility near Albuquerque, New Mexico

The marketplace demands more power.

Manufacturers Hanover energizes.

A great international effort is underway to find new sources of energy. The task requires dedication, inspiration, innovation, and—not least—financing.

Manufacturers Hanover is helping supply all four.

We have long provided direct financing to utilities and companies for the development of new power sources. And our leasing subsidiary, the world's largest bank-affiliated equipment financing company, supplies attractive alternatives—from financing single pieces of equipment to entire factories.

Credit, however, is only one part of our global commitment. Operations is another.

Intelligent Technology℠ is our innovative new approach to analyzing and managing cash management information. And financial managers in over 40 countries maintain up-to-the-minute control of their cash with TRANSEND®.

Credit. Operations. And the integration of both to create a total financial relationship of the highest standards—anywhere in the world. The marketplace demands it. Consider the source.

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